

NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES, CANADA OR JAPAN

Industrial Group Operations and Financials

Arab Steel Factory

Company Operations

Leading manufacturer of steel billet

Arab Steel Factory (ASF) is the leading manufacturer of Egyptian steel billet for sale on the local market and the only local supplier on the open market. Incorporated as a joint stock company under law 159 of 1981, in 1994 it received a licence to operate and begin production in October 1997.

The Lakah family has been involved in the steel business since 1960 and has operated a rolling mill in Alexandria which produced steel rebars for 20 years. The idea for ASF was born when the family was unable to operate the mill at full capacity in 1993 and 1994, due to the under-supply of steel billets needed to produce steel rebars.

10-year tax holiday

As the company was established in the desert city of 10th of Ramadan, it is exempt from corporation tax for a 10-year period. This period will end in 2008, giving a further eight and a half years' tax holiday. Once this comes to an end, ASF will be subject to a 32% flat rate tax on its net profits.

In 1998, ASF's revenues amounted to USD 55mn. As of June 1999, the company had 362 full-time employees.

Products

Production capacity of 400,000 tonnes

Arab Steel Factory specialises in the production of steel billets. Steel billet, which is one of the simplest types of steel product, is the raw material used in the production of steel rebars, angles and beams for the construction industry.

By the end of December 1998, ASF's mini-mill in 10th of Ramadan City had produced 240,000 tonnes of billet. This mill is in operation round the clock and has an annual production capacity of 400,000 tonnes.

Objective to increase production to reach optimum capacity

Core Strengths and Corporate Strategy

ASF is the only company in the Mena region which specialises in the production of grade 37 and 52 billets on the open market. It is also the leading manufacturer of Egyptian steel billet for sale on the local market and the only local supplier on the open market.

ASF's main objective is to increase production levels in order to reach the mill's optimum annual production capacity of 400,000 tonnes of billets. This objective requires increasing annual production by 40% or 160,000 tonnes. The company's other objectives include:

- developing existing marketing and sales.
- Capitalising on growth in construction and infrastructure demand.
- Continuing to develop low-cost energy operations.
- Maintaining tight control over customer credit exposure.
- Complying with, and where possible, exceeding domestic norms and regulations in line with ASF's overall environmental policy, without necessarily incurring additional costs.
- Developing well-trained and motivated employees.

ANDSK is the main customer with 180,000 tonnes purchased in 1998

Rebar production is expected to rise by 16% a year

Limited local competition

Limited competition from western producers and anti-dumping laws against emerging market producers

Highly dependent on fluctuations of steel scrap prices

Approved for environmental standards

No year 2000 issue

Market segments and customers

In 1998, Alexandria National Iron and Steel Dekhela (ANDSK is the leading producer of rebars) purchased 180,000 tonnes of steel billets from ASF, representing 75% of its total production. The remaining 140,000 tonnes was sold to other manufacturers, such as Delta and El Saed. In 1999, Amitrade, ASF's subsidiary, has become its main customer. In order to guarantee a uniform, supply of competitively priced raw materials, Amitrade, which is responsible for purchasing ASF's raw materials, now also sells on billets to ANDSK.

Market size, market structure and competitors

Demand for billets is directly dependent on Egyptian demand for rebars, which, in turn, depends on the growth of the domestic construction industry.

Given the growth rate of the construction industry, rebar production is expected to increase by 16% a year over the next few years. Local production, which has increased from meeting 56% of local demand in 1995 to 90% in 1998, is protected by import tariffs of 20%.

In response to the above, Egyptian demand for billets has increased by 100% - from 1.9mn tonnes in 1992 to 3.8mn tonnes in 1998. Of this 3.8mn tonnes, 2.5mn (66%) tonnes were produced locally while 1.3mn (34%) were imported.

ASF faces only limited local competition as most local billet manufacturers use them to produce their own rebars and they have no plans to produce more for sale on the open market. In 1998, ASF's production (240,000 tonnes) represented 6% of market production, led by ANDSK with 900,000 tonnes (26%) and Egyptian Iron and Steel with 805,000 tonnes (21%).

ASF believes that competition from Western producers will decline as they move towards producing higher value added products such as top-of-the-range alloy steels, leaving billet production to emerging market manufacturers. In turn, competition from other emerging market producers such as Ukraine, Romania, Latvia and Turkey, is likely to fall as Egyptian law 161 of 1998 is enforced to protect local manufacturers against dumping and unwanted imports.

ASF believes that it should be able to increase its production by targeting the 1.3mn tonnes of imported billets that it sees as a shortage in the Egyptian market. ASF believes it has a competitive price advantage because of its lower transportation costs.

Issues, Concerns and Risks

The price of ASF's billets is directly affected by fluctuations in the price of steel scrap. Steel scrap, which constituted 35-40% of the company's production costs in 1998, is the main raw material in the production of billets. In 1998, 80% of the steel scrap was bought locally while 20% was imported. In order to hedge against fluctuations in the price of steel scrap, ASF tries to maintain reserves for at least six months' production. In 1998, ASF paid an average price of around £f300 per tonne of steel scrap.

The Egyptian Environmental Affairs Agency (EEAA) approved the environmental standards for ASF in May 1999. ASF believes it should not require any further investments to meet ISO 9000 quality requirements.

ASF has tested all its hardware and software (most of which was bought after 1996) to be year-2000 compliant and does not envisage the Y2K issue causing any problems.

ASF's only indebtedness is a £f250,000 11% bond issue, issued on 29 September 1998, which matures in 2005.

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Financial Analysis

Table 18

ASF Financial Highlights and SG Forecasts**Arab Steel Factory Income Statement, in EE 000**

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Sales		186,773	224,000	256,000	288,000	297,000
Cost of Sales		108,383	143,360	163,840	184,320	190,080
Gross Profit	78,390	80,640	92,160	103,680	106,920	
Operating expenses before D&A		2,503	3,360	3,840	4,320	4,455
EBITDA	75,887	77,280	88,320	99,360	102,465	
Depreciation and amortisation		18,231	19,562	20,771	21,955	23,224
EBIT	57,656	57,718	67,549	77,405	79,241	
Net financial & other expense		27,961	27,285	27,340	25,952	2,431
EBT	29,695	30,433	40,209	51,452	81,673	
Tax provisions		594				
Net profit	29,101	30,433	40,209	51,452	81,673	

Arab Steel Factory Balance Sheet in EE 000

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Cash	1,857	2,264	1,680	16,291	25,595	77,650
Accounts & other receivables	57,727	99,546	112,000	128,000	144,000	148,500
Notes receivable						
Work in progress						
Inventory	73,683	77,309	91,840	104,960	118,080	121,770
Other current assets		6,984	14,560	16,640	18,720	19,305
Total current assets	133,267	186,103	220,080	265,891	306,395	367,225
Net fixed assets	218,975	209,226	211,125	209,916	208,731	207,463
Other long term assets	26,129	164,909	182,648	146,543	136,966	133,724
Total long term assets	245,104	374,135	373,773	356,459	345,697	341,187
Total assets	378,371	560,238	593,853	622,350	652,091	708,412
Accounts payable	1,277	7,677	9,318	10,650	11,981	12,355
Short term debt	95,235	15,380	25,000	15,000		
Other current liabilities		594				
Total current liabilities	96,513	23,650	34,318	25,650	11,981	12,355
Long term debt due to banks	156,561	4,668				
Long term debt - Holding Co.						
Bonds		250,000	250,000	250,000	250,000	250,000
Total long term debt	156,561	254,668	250,000	250,000	250,000	250,000
Other long-term liabilities	2,076	2,819				
Total long term liabilities	158,637	257,487	250,000	250,000	250,000	250,000
Paid up capital	20,000	250,000	250,000	250,000	250,000	250,000
Reserves and retained earnings	103,221	29,101	59,534	96,700	140,110	196,057
Shareholders' Equity	123,221	279,101	309,534	346,700	390,110	446,057
Total Liabilities & shareholders' Equity	378,371	560,238	593,853	622,350	652,091	708,412

SG

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Financial Analysis

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ASF Financial Highlights and SG Forecasts**Cash Flow Statement, in ££000**

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Net profits	29,101	30,433	40,209	51,452	61,673
Add: depreciation	14,812	16,320	17,529	18,714	19,982
Gross cash flow	43,913	46,754	57,738	70,166	101,655
Add: net financial & other expense	27,961	27,285	27,340	25,952	2,431
(increase) decrease in non-cash working capital	- 125,291	- 23,893	- 39,869	- 44,869	- 8,401
Operating cash flow	- 53,416	- 50,145	- 45,210	- 51,250	- 90,823
Capital expenditures on fixed assets	5,063	18,219	16,320	17,529	18,714
Free cash flow	- 58,480	- 31,926	- 28,889	- 33,721	- 72,109
Less: net financial and other expense	- 27,961	- 27,285	- 27,340	- 25,952	- 2,431
(Increase) decrease in other long-term assets	- 138,780	- 2,261	- 16,105	- 9,577	- 3,241
Increase (decrease) in long-term liabilities	98,850	7,487	-	-	-
Increase (decrease) in paid in capital	126,779	-	-	-	-
Less: dividends paid	-	-	3,043	8,042	25,726
Net cash flow	408	585	14,611	9,304	52,056
Beginning cash	1,857	2,264	1,680	16,291	25,595
Year end cash	2,264	1,680	16,291	25,595	77,650

Ratio and DuPont Analysis

For year ending 31 December	1998	1999E	2000E	2001E	2002E
EBIT margin	30.9%	25.8%	26.4%	26.9%	26.7%
X Asset turnover	0.33	0.38	0.41	0.44	0.42
= Return on assets (ROA)	10.3%	9.7%	10.9%	11.9%	11.2%
x Financial & other burden	0.52	0.53	0.60	0.66	1.03
= EBT / Assets	5.3%	5.1%	6.5%	7.9%	11.5%
x [1 - Effective tax rate]	98.0%	100.0%	100.0%	100.0%	100.0%
x Leverage [Assets / Equity]	2.0	1.9	1.8	1.7	1.6
= Return on equity (ROE)	10.4%	9.8%	11.6%	13.2%	18.3%
Gross margin	42.0%	36.0%	36.0%	36.0%	36.0%
EBITDA margin	40.6%	34.5%	34.5%	34.5%	34.5%
Net margin	15.6%	13.6%	15.7%	17.9%	27.5%
ROCE	10.5%	9.9%	11.0%	12.1%	11.4%
Net debt / Equity	0.96	0.88	0.72	0.58	0.39
Net interest cover	2.06	2.12	2.47	2.98	32.59

Financial Analysis - Comments

- The average price per tonne of billet was £f778 per tonne, lower than its normal level of £f850. We have conservatively projected prices at £f 800 per tonne for the 1999-2001 period, with an increase in capacity utilisation from 60% (240,000 tonnes) in 1998 to 90% in 2001.
- This means that the CAGR 91-01 of 15.5% of sales and 21% of revenues is primarily due to higher capacity utilisation.
- The gross margin was exceptionally high in 1998. We are projecting lower margins in the 1999-2003 period as a result of higher scrap prices.
- Full capacity utilisation is expected by 2002. Expanding capacity is difficult by design. No plans for a new plant yet, which would require substantial capex.

SG

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Provides services to ASF and other steel manufacturers

Sale, supply and servicing of Toshiba lifts, escalators and walkways

Sole distributor for Toshiba

Trading of billets and scrap represents 70% of sales

Toshiba distributorship represents 10% of sales

Amitrade for Trading and Contracting

Company Operations

Amitrade for Commerce and Contracting's primary activity is to provide a range of services to its subsidiary, Arab Steel Factory (ASF), and other major steel manufacturers. These services vary from the purchase of raw materials, spare parts and consumables to the on-sale of steel billets. Recently, Amitrade has also been involved in the sale, supply and servicing of Toshiba lifts, escalators and walkways.

Incorporated on 13 December 1995 as a joint stock company under law 159 of 1981, Amitrade was initially intended solely to enable AFC to focus on its core business of steel production while it focused on steel logistics. Since then, however, its role has developed significantly.

Amitrade's revenues amounted to USD 23.7mn in 1998. As of June 1999, the company had 24 full-time employees.

Products

Amitrade procures all types of raw material, spare parts and consumables (such as scrap iron, sponge iron, refractory bricks and graphite) for various steel manufacturing companies and ASF. Amitrade is also responsible for distributing the majority of ASF's billet production, maintaining contacts and carrying out sales contracts with rebar manufacturers on behalf of ASF.

Since the beginning of this year, Amitrade has become Toshiba's sole distributor for escalators, lifts and moving walkways in Egypt and the Middle East. In addition, it has also signed a contract to install and maintain these products.

Core Strengths and Company Strategy

Amitrade's key strategies consist of:

- * Consolidating and improving its position as a leading trading company in Egypt.
- * Expanding its trading services to other areas such as special steel, aluminium, glass, cement and other heavy industry operations.
- * Expanding the distributorship of Toshiba lifts and escalators to include other countries in the Middle East.
- * Expanding the trading business to cover other countries in the Middle East.
- * Maintaining tight control over credit exposure to customers and developing highly trained employees.

Market segments and customers

Amitrade operates in two main markets:

The trading of billets and scrap is its main activity, representing some 70% of its sales, while the sale of consumable materials and additives represents about 20% of sales. Its main contract is with ANDSK for the supply of 180,000 tonnes of steel billets that it buys, at no special discount, from ASF. In addition, Amitrade also operates with other companies such as Al Saeid Company to which it supplies raw materials and consumables.

The Toshiba lift and escalator distributorship represents about 10% of sales. The contract runs for two years with an automatic extension of 12 months if and when the agreement is terminated. Amitrade will be targeting the high-end segment of the market such as hospitals, office buildings, commercial centres and hotels. Following an open tender, its first contract was signed with Swissotel

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(owned by the Scandinavian Company for Investments and Touristic Development which is controlled by the Lakah family).

Market size, market structure and competitors

Amitrade's main competitors in the Egyptian trading market are: El Nasr Co for Import/Export, Min Co for Foreign Trade, Arab Co for Foreign Trade and El Mahareeth Wal Handessa.

Lift market expected to rise by 10% a year

Amitrade expects the lift market to grow by 10% a year until end-2005. There are currently 30 lift suppliers and contractors in Egypt, of which 65% are international manufacturers such as Otis, Schindler, Marryat and Scott, Hans, Mitsubishi, Dover, Thyssen and Haushann.

Reducing dependence on ASF

- * Amitrade has been actively looking to reduce its dependence on ASF by developing business with other major steel manufacturers. In 1998, 87% of Amitrade's sales came from steel-related purchases from other companies. This allows Amitrade not to be restricted by ASF's production capacity and to grow with the Egyptian steel market rather than ASF's production capacity.

Diversification from steel

- * Amitrade has also been actively seeking to diversify away from steel-related raw materials and products by expanding into other markets. The exclusive contract signed with Toshiba in February 1999 for the sale, installation and maintenance of lifts, elevators and walkways is the fruit of such efforts.

No year 2000 issue

- * Amitrade has tested all its hardware and software to be Y2K compliant and does not believe it will encounter any problems in this area.

Financial Analysis

Table 20

Amitrade Financial Highlights and SG Forecasts**Amitrade Income Statement, in ££ 000**

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Sales	50,092	80,577	219,822	234,108	248,276	262,153
Cost of Sales	45,887	67,881	205,399	216,327	231,833	244,421
Gross Profit	4,205	12,696	14,423	15,781	16,444	17,733
Operating expenses before D&A	649	921	2,437	2,578	2,716	2,855
EBITDA	3,556	11,774	11,987	13,203	13,726	14,878
Depreciation and amortisation	8	3	201	231	261	291
EBIT	3,548	11,771	11,785	12,972	13,464	14,587
Net financial & other expense	2,114	4,802	27	263	634	991
EBT	1,433	6,969	11,758	13,235	14,098	15,578
Tax provisions	981	927	2,703	3,294	3,639	4,231
Net profit	452	6,042	9,055	9,941	10,459	11,347

Amitrade Balance Sheet in ££ 000

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Cash	427	290	4,347	8,253	12,008	11,806
Accounts & other receivables	28,854	47,843	65,947	70,232	74,493	78,646
Notes receivable						
Work in progress						
Inventory	4,350	3,028	8,793	9,364	9,931	10,486
Other current assets	534	19,832	30,810	32,749	34,775	36,663
Total current assets	34,165	70,993	109,896	120,599	131,197	137,602
Net fixed assets	172	10,048	11,347	12,615	13,854	15,063
Other long term assets	167	125	84	42	-	-
Total long term assets	339	10,173	11,430	12,657	13,854	15,063
Total assets	34,504	81,166	121,326	133,256	145,051	152,665
Accounts payable	2,655	1,460	12,324	13,100	13,910	14,665
Short term debt	19,984	21,589	40,000	45,000	50,000	50,000
Other current liabilities	1,412	1,622	3,453	4,194	4,689	5,431
Total current liabilities	24,051	24,671	55,777	62,294	68,399	70,096
Long term debt due to banks	-	-	-	-	-	-
Long term debt - Holding Co.	-	-	-	-	-	-
Bonds	-	-	-	-	-	-
Total long term debt	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-	-
Total long term liabilities	-	-	-	-	-	-
Paid up capital	10,000	50,000	50,000	50,000	50,000	50,000
Reserves and retained earnings	452	6,495	15,549	20,963	26,451	32,568
Shareholders' Equity	10,452	56,495	65,549	70,963	76,451	82,568
Total Liabilities & shareholders' Equity	34,504	81,166	121,326	133,256	145,051	152,665

Financial Analysis

Table 21

Amitrade Financial Highlights and SG Forecasts

Cash Flow Statement, In ££000		1998	1999E	2000E	2001E	2002E
For year ending 31 December						
Net profits		6,042	9,055	9,941	10,459	11,347
Add: depreciation and amortisation		3	201	231	261	291
Gross cash flow		6,046	9,256	10,172	10,720	11,638
Add: net financial & other expense		4,802	27	263	634	991
(Increase) decrease in non-cash working capital		- 36,345	- 3,740	- 280	- 537	- 5,110
Operating cash flow		- 25,498	- 5,543	- 9,629	- 9,549	- 5,537
Capital expenditures on fixed assets		10,005	1,500	1,500	1,500	1,500
Free cash flow		- 35,503	- 4,043	- 8,129	- 8,049	- 4,037
Less: net financial and other expense		- 4,802	- 27	- 263	- 634	- 991
(Increase) decrease in other long-term assets		42	42	42	42	-
Increase (decrease) in long-term liabilities		-	-	-	-	-
Increase (decrease) in paid in capital		40,000	-	-	-	-
Add: net disposal of assets		126	-	-	-	-
Less: dividends paid		-	-	4,527	4,970	5,230
Net cash flow		- 137	- 4,057	- 3,906	- 3,754	- 201
Beginning cash		427	290	4,347	8,253	12,008
Year end cash		290	4,347	8,253	12,008	11,806
Ratio and DuPont Analysis						
For year ending 31 December		1998	1999E	2000E	2001E	2002E
EBIT margin		14.6%	5.4%	5.5%	5.4%	5.6%
X Asset turnover		0.99	1.81	1.76	1.71	1.72
= Return on assets (ROA)		14.5%	9.7%	9.7%	9.3%	9.6%
x Financial & other burden		0.59	1.00	1.02	1.05	1.07
= EBT / Assets		8.6%	9.7%	9.9%	9.7%	10.2%
x [1 - Effective tax rate]		86.7%	77.0%	75.1%	74.2%	72.8%
x Leverage [Assets / Equity]		1.4	1.9	1.9	1.9	1.8
= Return on equity (ROE)		10.7%	13.8%	14.0%	13.7%	13.7%
Gross margin		15.8%	6.6%	6.7%	6.6%	6.8%
EBITDA margin		14.6%	5.5%	5.6%	5.5%	5.7%
Net margin		7.5%	4.1%	4.2%	4.2%	4.3%
ROCE		15.1%	11.2%	11.2%	10.6%	11.0%
Net debt / Equity		0.38	0.54	0.52	0.50	0.46
Net interest cover		2.45	429.05	-49.33	-21.23	-14.72

Financial Analysis - Comments

- A jump in 1999 sales followed by more moderate growth
- Lower growth in earnings due to lower margin and a different sales mix
- While CAGR 99-01 sales of 45% may indicate strong growth in Amitrade's business, the growth is mainly due to the 180k tonne contract which takes effect in 1999. CAGR 2000-2002 is only 6% for sales. The Toshiba lift business may pick up much more quickly but we are adopting a wait-and-see approach and keeping our growth assumptions conservative.
- The CAGR 99-01 net earnings of 20% is much higher than the CAGR 2000-2002 net earnings of 7.8%. The fact that the growth in net earnings is lower than the growth in sales is due to lower margins after 1998 on scrap and other raw materials and on a different sales mix with lower-margin lift business (11%).
- The return on equity in the 1999-2001 period is higher than in 1998, despite lower margins. This is due to higher gearing generated from growth in the volume of the trading business.

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Second largest manufacturer in terms of production units

Industrial Consumer Company

Company Operations

Industrial Consumer Company (ICC) manufactures and sells light bulbs and tubes. It is the second largest manufacturer, in terms of production units, in this sector. ICC owns one of only two factories in Egypt to have an integral manufacturing line from glass manufacture and assembly to packaging.

Incorporated on 5 December 1995 as a joint stock company under law 159 of 1981, ICC was established to meet the growth in demand generated by the rise in construction activity and the 5-year plan to expand electrification in Egypt.

ICC acquired El Sherif Lighting Facility from the government in November 1997 for ££40mn. It was in poor condition but offered many advantages such as sufficient space for expansion, a glass furnace, and a fluorescent lamp production line that, while not operational, had modern horizontal fluorescent lighting technology.

In June 1999, the company changed its name from American Company for Marketing to Industrial Consumer Company.

As of June 1999, ICC had 397 full-time employees.

Negotiating with major multinational for joint venture

Lakah Group is currently in negotiations with a major multinational in order to enter into a joint venture in which it would technically assist in upgrading and operating the factory, sign a licence agreement to use its brand name and market and distribute products in Egypt as well as overseas.

ICC established three subsidiaries

Due to this surplus floor capacity, until the expansion of its lighting assembly lines is completed, ICC established three subsidiaries: Industrial Steel and Metalwork, Industrial Woodwork and Industrial Aluminium Works, which are all 99.9%-owned by ICC, and lease space from its factory.

10 year tax holiday

As the company is located in the desert city of 10th of Ramadan, it is exempt from paying corporation tax for 10 years. This period has now ended but after the completion of improvement work on its facilities, it will be eligible for a further ten-year period from 2000 until 2010.

Products

ICC produces glass shells (5 tonnes/day capacity), 18mm to 40mm glass tubes (10 tonnes/day capacity), 25, 40, 60, 75 and 100 watt GLS lamps (4,500 units/day capacity), 18 and 36 watt and fluorescent lamps (200 units/day capacity). ICC plans to introduce its own 'Candella' brand in the form of candle lamps, spotlights, night lamps and 32mm diameter glass tubes.

Production of fluorescent lights began in June 1999

ICC completed trial production of its fluorescent lights line in June 1999 and has entered production. Utilisation of its GLS production capacity has risen from 20% to 70%.

In addition, its three subsidiaries produce wooden doors, window frames, grilles, hand rails and aluminium products for the construction industry.

Competitive advantage due to transportation constraints

Core Strengths and Company Strategy

ICC has a competitive advantage over imported goods because of high cost and breakages due to transport, significant customs duties and anti-dumping laws.

Furthermore, ICC is the only private sector factory in Egypt to have a glass furnace (production capacity of 22 tonnes per day).

ICC's strategy is to develop its market share of GLS normal bulbs and fluorescent lamps in Egypt and the Middle East (through free trade agreements) which currently are largely imported. ICC believes there is room for two local manufacturers to share significant market share in the Egyptian lighting market.

Projects getting 14% of GLS market and 27% of fluorescent light market in 1999

90% of sales to wholesalers

Five-year plan to expand Egypt's electricity and growth of construction sector boosts demand for bulbs

Neasa is the main competitor with 47% of the GLS market and 38% of the fluorescent lights market

Raw materials easily available

Has met all environmental requirements

No year 2000 issue

Market segments and customers

- ICC held 8% of the GLS bulbs market in 1998 and expects to grow its share to 14% in 1999. ICC only started producing fluorescent lights in 1999 but expects to have 27% of the market by the end of 1999 (largely taken from imported lamps due to competitive advantages).
- 90% of ICC's sales are made to wholesalers and 10% to local tender business and retail. In addition, a small quantity of glass shell and tube sales goes to other lighting manufacturers which do not have their own glass furnaces.

Market size, market structure and competitors

The Egyptian government's decision under the 5-year plan to expand the country's electricity distribution to cover the entire country, coupled with the growth of the Egyptian Construction sector, has increased demand for light bulbs. Domestic demand for light bulbs increased by 16% from 110mn units in 1995 to 128mn units in 1998. ICC estimates that demand for GLS and fluorescent lamps will reach 117mn and 19.5mn units, respectively, in 1999.

Neasa is ICC's main local competitor, with 47% of the GLS bulb market and 38% of the fluorescent lights market. Imported lights come second, with 32% of the GLS bulb market and 57% of the fluorescent lights market. Other local production only represents 13% of the GLS market and 5% of the fluorescent lights market.

Issues, Concerns and Risks

All the requisite raw materials are readily available in Egypt, without the need to rely on a single supplier and of sufficient quality to ensure the production of top quality glass. Other components, such as filaments, caps, exhaust tubes and flares, are imported.

ICC has met all Egyptian environmental requirements under law No 4 of 1994.

ICC has tested all its computer hardware and software to be year 2000 compliant and does not believe the Y2K issue will lead to any problems.

Financial Analysis

Table 22

ICC Financial Highlights and SG Forecasts**ICC Income Statement, in EE 000**

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Sales	-	44,363	54,245	60,125	65,506
Cost of Sales	-	28,363	34,731	38,345	41,593
Gross Profit	-	16,000	19,515	21,780	23,913
Operating expenses before D&A	-	3,406	4,340	4,810	5,240
EBITDA	-	12,593	15,175	16,970	18,672
Depreciation and amortisation	-	3,405	5,280	5,280	5,317
EBIT	-	9,189	9,895	11,690	13,355
Net financial & other expense	-	802	1,177	2,067	3,117
EBT	-	8,387	11,073	13,757	16,472
Tax provisions	-	1,355	-	-	-
Net profit	-	7,032	11,073	13,757	16,472

ICC Balance Sheet in EE 000

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Cash	245	12,394	21,755	32,811	35,587
Accounts & other receivables	575	13,863	16,952	18,789	20,471
Notes receivable	196	28	-	-	-
Work in progress	-	-	-	-	-
Inventory	5,520	2,218	2,712	3,006	3,275
Other current assets	66,405	3,427	4,112	4,359	4,533
Total current assets	72,942	31,931	45,531	58,965	63,866
Net fixed assets	39,886	61,886	57,011	52,636	58,124
Other long term assets	15,373	1,619	1,214	809	405
Total long term assets	55,259	63,505	58,225	53,445	58,528
Total assets	128,201	95,436	103,756	112,411	122,394
Accounts payable	290	3,404	4,168	4,601	4,991
Short term debt	68,993	-	-	-	-
Other current liabilities	-	-	-	-	-
Total current liabilities	69,282	3,404	4,168	4,601	4,991
Long term debt due to banks	8,919	-	-	-	-
Long term debt - Holding Co.	-	35,000	35,000	35,000	35,000
Bonds	-	-	-	-	-
Total long term debt	8,919	35,000	35,000	35,000	35,000
Other long-term liabilities	-	-	-	-	-
Total long term liabilities	8,919	35,000	35,000	35,000	35,000
Paid up capital	50,000	50,000	50,000	50,000	50,000
Reserves and retained earnings	-	7,032	14,589	22,809	32,403
Shareholders' Equity	50,000	57,032	64,589	72,809	82,403
Total Liabilities & shareholders' Equity	128,201	95,436	103,756	112,411	122,394

Financial Analysis

Table 23

ICC Financial Highlights and SG Forecasts

ICC Cash Flow Statement, in £000

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Net profits		7,032	11,073	13,757	16,472
Add: depreciation and amortisation	114	3,000	4,875	4,875	4,913
Gross cash flow	114	10,032	15,948	18,632	21,385
Add: net financial & other expense		802	1,177	2,067	3,117
(increase) decrease in non-cash working capital	-43,727	-12,718	-3,475	-1,944	-1,735
Operating cash flow	-43,613	-1,884	11,295	14,621	16,532
Capital expenditures on fixed assets		25,000		500	10,400
Free cash flow	-43,613	-26,884	11,295	14,121	6,132
Less: net financial and other expense		802	1,177	2,067	3,117
(Increase) decrease in other long-term assets	-15,291	13,754	405	405	405
Increase (decrease) in long-term liabilities	8,919	26,081			
Increase (decrease) in paid in capital	49,750				
Less: dividends paid			3,516	5,936	6,878
Net cash flow	235	12,149	9,361	11,056	2,775
Beginning cash	480	245	12,394	21,755	32,811
Year end cash	245	12,394	21,755	32,811	35,587

Ratio and DuPont Analysis

For year ending 31 December	1998	1999E	2000E	2001E	2002E
EBIT margin		20.7%	18.2%	19.4%	20.4%
X Asset turnover		0.46	0.52	0.53	0.54
= Return on assets (ROA)		9.6%	9.5%	10.4%	10.9%
x Financial & other burden		0.91	1.12	1.18	1.23
= EBT / Assets		8.8%	10.7%	12.2%	13.5%
x [1 - Effective tax rate]		83.8%	100.0%	100.0%	100.0%
x Leverage [Assets / Equity]	2.6	1.7	1.6	1.5	1.5
= Return on equity (ROE)		12.3%	17.1%	18.9%	20.0%
Gross margin		36.1%	36.0%	36.2%	36.5%
EBITDA margin		28.4%	28.0%	28.2%	28.5%
Net margin		15.9%	20.4%	22.9%	25.1%
ROCE		10.0%	9.9%	10.8%	11.4%
Net debt / Equity	1.55	0.40	0.21	0.03	-0.01
Net interest cover		11.46	-8.40	-5.66	-4.28

Financial Analysis – Comment

CAGR 2000-2002 of 14% for sales and 33% for net earnings

- Moderate sales growth expected in the 2000-2002 period coupled with higher earnings growth. This is due to an improving sales mix with higher margin workshops growing more quickly than lower margin light bulbs.
- The tax holiday enjoyed by ICC starting from 2000, combined with lower financial burden (as illustrated by the DuPont Analysis), explains the significant jump in ROE between 1999 and the 2000-2002 period despite relatively flat ROCE.
- With ROCE one of the best indicators of operating profitability, stagnant in the 10% to 11.5% range, it is at best equal to the cost of debt.

SG

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Industrial Investment Company

Company Operations

Industrial Investment Company (IIC) invests in Egyptian industrial concerns and real estate. IIC owns Detergent Company (which it leases out), the leading privately owned detergent plant in Egypt; 90% of Universal for Heavy Transport, the leading privately-owned freight trucking company operating in Egypt; 49% of Suez Company for Metallurgic, a company which produces steel rebars, beams and angles; and various real estate in Cairo.

Incorporated on 3 December 1995 as a joint stock company under law 159 of 1981, it changed its name from Empain for Financial Real Estate Investment to Industrial Investment Company in June 1999.

IIC's revenues amounted to USD2.6mn in 1998.

10 year tax holiday for Detergent Company after renovations

10 year tax holiday for Suez

Largest production capacity among privately-owned detergent plants

Once renovations to its factory are completed, the Detergent Company will enjoy a ten year tax holiday

Due to Suez Company for Metallurgic Industries' relocation in a new industrial zone, it will benefit from a 10-year tax holiday.

Products

Detergent Company, which it leases out, was acquired for about E£81mn on 1 January 1999. Its factory has the largest production capacity among privately-owned detergent plants in the country. It has a full line manufacturing facility with capacity to manufacture detergent and sodium silicate and package detergent products. Detergent Factory produces low foam powder for automatic and semi-automatic washing machines, hi-foam powder for hand washing, powder for dish washers, special detergents for hospital use, liquid detergents for cleaning dishes, floors, carpets and glass, hair shampoo and fabric softeners.

Universal for Heavy Transport owns or leases 51 Mercedes Benz 50 tonne trucks offering service from and to all maritime ports, airports and regions in Egypt.

Suez Company for Metallurgic manufactures steel rebars, angles and beams with an annual capacity of 150,000 tonnes of steel.

Core Strengths and Company Strategy

IIC's strategy line is to ensure both long-term capital appreciation from its industrial assets and current income through its real estate investments.

Market Analysis

* Market segments and customers

Detergent Company: Prior to being acquired by IIC, the company had a 21% share of the Egyptian detergent market.

Universal for Heavy Transport: In 1998, 16% of its total freight tonnage was the result of contracts with its Amitrade subsidiary.

Suez Company for Metallurgic: All production is sold locally to the construction industry. Given its geographic proximity, IIC expects its future production to meet demand from the new tourist developments in Ain El-Sukhna, Ras Seder and Marsa Alam.

* Market size, market structure and competitors

Detergent Company: local production of detergent has risen by 48% from 72mn tonnes in 1986 to 107mn tonnes in 1996. This still left demand of 4mn tonnes in

21% of detergent market

16% of total freight due to Amitrade

Suez production sold locally

Detergent market increased by 48% in 10 years

1996. The growth of this industry is greatly correlated to population growth and the gradual replacement of hand washing with washing machines.

Universal for Heavy Transport: The company estimates demand for heavy freight truck deliveries at 32mn tonnes in 1999, 6.5mn tonnes over Egypt's present capacity.

*** Issues, Concerns and Risks**

5% tax on freight since 1 January 1999

On 1 January 1999 the Egyptian government implemented a 5% sales tax on freight. This will be an added tax on Universal for Heavy Transport.

No Y2K issue

IIC has tested all of its computer hardware and software to be year 2000 compliant and does not envisage any Y2K problems.

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Financial Highlights and SG Forecasts

Table 24.

IIC Financial Highlights and SG Forecasts**IIC Income Statement, in EE 000**

For year ending 31 December	1998	1999E	2000E	2001E	2002E
Sales	8,895	12,928	14,574	16,453	18,598
Cost of Sales	600	1,099	1,239	1,399	1,581
Gross Profit	8,295	11,829	13,336	15,055	17,017
Operating expenses before D&A	74	100	97	139	187
EBITDA	8,220	11,729	13,239	14,915	16,830
Depreciation and amortisation	162	159	194	190	185
EBIT	8,058	11,571	13,044	14,726	16,646
Net financial or other expense	867	29,807	10,838	12,625	14,072
EBT	7,192	41,378	23,882	27,350	30,718
Tax provisions	144	11,431	4,433	5,820	7,167
Net profit	7,048	29,947	19,449	21,530	23,551

IIC Balance Sheet in EE 000

For year ending 31 December	1997	1998	1999E	2000E	2001E	2002E
Cash	62	580	15,198	2,389	1,576	1,717
Accounts & other receivables			5,250	874	987	1,116
Notes receivable						
Work in progress						
Inventory						
Other current assets						
Total current assets	62	580	20,448	3,264	2,563	2,833
Net fixed assets	8,100	7,938	7,779	7,585	7,395	7,210
Other long term assets	98,407	225,635	248,199	268,055	284,138	301,186
Total long term assets	106,507	233,573	255,978	275,639	291,533	308,396
Total assets	106,569	234,153	276,426	278,903	294,096	311,229
Accounts payable	81,000	81,000				
Short term debt				5,000	7,000	10,000
Other current liabilities		144	11,431	4,433	5,820	7,167
Total current liabilities	81,000	81,144	11,431	9,433	12,820	17,167
Long term debt due to banks	5,564	17,962				
Long term debt - Holding Co.			100,000	100,000	100,000	100,000
Bonds						
Total long term debt	5,564	17,962	100,000	100,000	100,000	100,000
Other long-term liabilities	5					
Total long term liabilities	5,569	17,962	100,000	100,000	100,000	100,000
Paid up capital	20,000	128,000	128,000	128,000	128,000	128,000
Reserves and retained earnings		7,048	36,995	41,470	53,276	66,062
Shareholders' Equity	20,000	135,048	164,995	169,470	181,276	194,062
Total Liabilities & shareholders' Equity	106,569	234,153	276,426	278,903	294,096	311,229

Financial Analysis

Table 23

IIC Financial Highlights and SG Forecasts

IIC Cash Flow Statement, in ££000

For year ending 31 December	1999E	2000E	2001E	2002E
Net profits	29,947	19,449	21,530	23,551
Add: depreciation and amortisation	159	194	190	185
Gross cash flow	30,105	19,644	21,720	23,736
Add: net financial & other expense	29,807	10,838	12,625	14,072
(increase) decrease in non-cash working capital	74,963	2,377	3,275	4,218
Operating cash flow	74,665	11,183	12,370	13,981
Capital expenditures on fixed assets				
Free cash flow	74,665	11,183	12,370	13,981
Less net financial and other expense	29,807	10,838	12,625	14,072
(Increase) decrease in other long-term assets	22,564	19,856	16,083	17,048
Increase (decrease) in long-term liabilities	82,038			
Increase (decrease) in paid in capital				
Less: dividends paid		14,973	9,725	10,765
Net cash flow	14,618	12,808	813	140
Beginning cash	580	15,198	2,389	1,576
Year end cash	15,198	2,389	1,576	1,717

Ratio and DuPont Analysis

For year ending 31 December	1998	1999E	2000E	2001E	2002E
EBIT margin	90.6%	89.5%	89.5%	89.5%	89.5%
× Asset turnover	0.04	0.05	0.05	0.06	0.06
= Return on assets (ROA)	3.4%	4.2%	4.7%	5.0%	5.3%
× Financial & other burden	0.89	3.58	1.83	1.86	1.85
= EBT / Assets	3.1%	15.0%	8.6%	9.3%	9.9%
× [1 - Effective tax rate]	98.0%	72.4%	81.4%	78.7%	76.7%
× Leverage [Assets / Equity]	1.7	1.7	1.6	1.6	1.6
= Return on equity (ROE)	5.2%	18.2%	11.5%	11.9%	12.1%
Gross margin	93.3%	91.5%	91.5%	91.5%	91.5%
EBITDA margin	92.4%	90.7%	90.8%	90.7%	90.5%
Net margin	79.2%	231.6%	133.4%	130.9%	126.6%
ROCE	5.3%	4.4%	4.8%	5.1%	5.5%
Net debt / Equity	0.13	0.51	0.61	0.58	0.56
Net interest cover	9.30	-0.39	-1.20	-1.17	-1.18

Financial Analysis

Significant long-term investments...

...will radically alter the current above-the-line picture...when consolidated

- While IIC owns 90% of Universal for Heavy Transport, the ICC numbers do reflect a consolidation of the long-term investments made by the company (including the investment in the trucking company). The reason lie in the non-availability of audited figures for the trucking company. Note that Lakah's pro-forma consolidation of all its operations fully consolidates IIC's major investments.
- The current sales figures refer to the rental of the detergent plant and the two buildings. These are minor revenues compared to the revenues generated by the investments. We have assumed a highly conservative return on investments of 9%. The investment income results in a negative overall financial expense, despite significant borrowing of £100mn from Lakah Group Holding.
- The significantly high 1999 net financial income includes a capital gain of £21mn from the sale of a building.

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Key Economic Indicators

Table 26

Egypt

% change YOY	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
GNP US\$ bn	60.2	67.6	75.6	82.7	90.2	98.5	108.2
Population, 000s	60.6	62.0	63.4	64.8	66.3	67.8	69.3
GDP per capita	993	1,091	1,192	1,276	1,360	1,453	1,561
Real GDP	5.1	5.3	5.7	5.3	5.5	5.6	5.8
CPI (period avg)	7.3	6.2	3.8	3.9	3.9	4.1	4.0
Consumer prices (End June)	8.3	4.7	3.6	3.6	4.4	4.0	4.0
Budget bal % GDP	-1.5	-0.9	-1.0	-1.0	-1.1	-1.0	-0.8
Gross domestic debt % GDP	57.7	57.9	57.1	52.0	51.0	48.0	48.0
Exports USDbn	4.8	5.3	5.1	4.1	4.2	4.5	4.7
Imports USDbn	14.1	15.6	16.9	16.8	17.8	19.2	20.3
Trade balance USDbn	-9.5	-10.2	-11.8	-12.7	-13.6	-14.7	-15.6
- as % of GDP	-14.0	-13.5	-14.2	-14.1	-13.8	-13.6	-13.1
Current account USDbn	-0.2	0.1	-2.8	-2.3	-2.3	-2.5	-2.5
- as % of GDP	-0.3	0.2	-3.3	-2.5	-2.4	-2.4	-2.1
Foreign reserves USDbn (end June)	16.5	18.6	18.4	17.0	17.0	16.5	16.5
Import cover	11.7	11.9	10.9	10.3	9.7	8.8	8.1
Total foreign debt	31.2	29.1	28.1	29.8	29.0	30.0	31.0
as % of GDP	46.1	38.4	33.9	33.1	29.4	27.7	26.1

Data year ending June unless otherwise specified

Table 27

Egypt

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
3-month T-bill rate (End June)	10.2	9.9	9.0	11.5	11.0	10.5	10.0
Exchange rate, average EGP/US\$	3.39	3.39	3.39	3.39	3.40	3.40	3.40
Exchange rate, end June, EGP/US\$	3.39	3.39	3.39	3.40	3.40	3.40	3.40

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